

“Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it.”

― [Albert Einstein](http://www.goodreads.com/author/show/9810.Albert_Einstein)

Car shopping (and the reality of finances)

For this project, I will “interview” you for 10 minutes. You need to take enough notes so that you'll be able to tell me what you learned. Take notes, screen shots, etc. so that you can reference them.

These are the questions I want you to be able to answer by the end of this project.  
\*For your car, what was the financial value of your car during year 1, 2, 3, etc compared to your loan amount?  
\*At my first job, I brought home approximately $23,000 a year. Suppose my typical monthly bills were $900. What advice would you give me if I wanted to buy a new car?

**\*Why** do most financial experts advise consumers to take car loans of 4 years or less?  
**\*Why** do people take out loans for longer than 5 years and what can happen?

\*About what % of a car's value should you put down and **why**?

Here are some links and questions to help you. Feel free to use other sources.  
1. Read http://www.bankrate.com/finance/auto/the-price-of-long-auto-loans.aspx. \*What does it mean to be "upside down" in a loan?   
  
2. Find the price of a new 2013 vehicle that you would be interested in buying. Use the following website to figure out the value of the car in two years: http://www.money-zine.com/Calculators/Auto-Loan-Calculators/Car-Depreciation-Calculator/ [Remember to put in 0 for the \*current age.]  
  
3. Go to the following website and download the amortization sheet:  
(If the sheet doesn’t work on your mac, let me know. We can download a different one.)  
http://financialsoft.about.com/gi/o.htm?zi=1/XJ&zTi=1&sdn=financialsoft&cdn=compute&tm=32&f=10&su=p284.9.336.ip\_p504.1.336.ip\_&tt=11&bt=1&bts=1&zu=http%3A//www.mdmproofing.com/iym/products/loan-amortization/   
Use 5.25% as the APR and 1/1/12 as the start date.  
\*Compare total payment of loans for 3, 4, 5, 6, and 7 years. What happens to the total amount you have to pay? Why?  
  
  
**4. \*Compare your car value at 2 years to each of these loan values. What do you notice?**  
       
5. Read http://www.lendingtree.com/auto-loans/advice/buying-a-new-car/how-much-to-put-down-on-a-car/.  
\*Now go back to the loan amortization sheet and put $5,000 down in the first payment. Now what do you notice? According to this article, can you be "upside down" in a loan even if you take out a 3-year loan?  
  
  
Interview time: You will be graded on your answers to questions that are similar to the ones found throughout this document. I will ask you to relate it to exponential growth, compound interest, and other topics we have studied in this chapter as well. Come prepared!